WRITTEN STATEMENT

OF

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Good morning, Chairman Baker, Ranking Member Kanjorski, and other distinguished Members of the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises. My name is Lavada DeSalles, and I am a Member of AARP's Board of Directors. I appreciate this opportunity to offer our views regarding what seniors need to know about protecting their economic security. Today, my testimony will focus primarily on the role that private insurance can play in retirement planning – and what should to done to increase its usefulness to older adults for meeting their financial needs.

With a membership of over 35 million midlife and older persons, AARP has a vested interest in and is actively involved with efforts to promote the economic security of our members – and for all Americans age 50 and over that we aspire to serve. Private insurance products can and frequently do play an important and valuable role in accumulating, managing and protecting the financial assets necessary for a secure retirement.[1] We believe that privately financed insurance products have the potential to play an important supplemental role to the foundation provided by Social Security. To fulfill that role, the marketplace for these products should include:

[1] See our "Retirement Planning Guides: a Bibliography with Abstracts", from AgeLine in the Research Center of AARP's Webplace (http://research.aarp.org/econ/retplanprn.html). Attached to my written testimony are two consumer resources that have been compiled by AARP and are available to everyone, without charge, for downloading from our website:

- the first provides guidance on how to create a financial plan (www.aarp.org/financial-creatingplan/); and
- the second provides guidance on how to manage your insurance portfolio (www.aarp.org/tools/Articles/a2002-08-13-InsuranceOverview/).

- strengthened enforcement of consumer protection statutes and regulation,
- ready access by consumers to well-qualified, independent and affordable financial planning resources,
- reliable and accurate metrics for comparing insurance products as well as for comparing insurance products with equity market products, and
- substantial additional progress in the national standardization and licensing of insurers and their agents and product approval promised in the enactment of the Gramm-Leach-Bliley Act.

Ultimately, these products need to be integrated as supplementary options for what AARP has characterized as the four basic pillars of retirement income security for the 21st century:

- Social Security,
- Pensions and savings/investments,
- Healthcare insurance coverage, and
- Earnings from working during one's "retirement" years.[2]

Some insight into the characteristics of those nearing retirement age, and in need of health insurance, is provided by an AARP analysis based on the March

[2] "Beyond 50: An AARP Report to the Nation on Economic Security" (2001) concludes that traditionally, the structure of retirement security has been thought of as a "three-legged stool". Now, because one-fifth of the aggregate income of Social Security beneficiaries derives from wages, earnings from employment merit consideration as a pillar of retirement security.

2001 Current Population Survey conducted by the Bureau of the Census. It revealed that in the year 2000, more than 13 % of people ages 50-64 (5.2 million individuals) were uninsured (without any health insurance) throughout the year.

One common misconception is that the uninsured are unemployed. In 2000, fully 64 percent of 50-64 year-olds without health insurance were workers. The largest share of uninsured workers in this age group worked for small employers (43 % worked for employers with fewer than 10 employees). Among the uninsured 50-64 year-olds, only one in five did not file a federal income tax return in 2000. Women in this age group are at somewhat greater risk than their male peers (14 % compared to 12 %). However, minorities account for a disproportionate share of uninsured 50-64 year-olds (Blacks and Hispanics made up 33 % of the uninsured population, but only 18 % of all 50-64 year-olds).

Unsurprisingly, commercially offered personal insurance products pose the same cost, availability and sustainability challenges for individuals that are so familiar to policy makers in addressing national issues. However, the responsibility for the selection among a complex array of insurance companies, and policy options within insurance product lines, shifts to the individuals and their families while they are – at the same time - attempting to manage their daily financial affairs. We do not view this challenge as an unbreachable barrier, but rather one that will require a concerted effort by policy makers, the insurance industry, consumer advocates and consumers to address. Chairman Baker, today's hearing represents an important first step in launching this effort.

The Challenge Ahead:

Interest in Financial Planning and Management by Near-Retirees

AARP has long been active in efforts to assist midlife and older Americans to improve their prospects for achieving personal financial security. In this regard, we have conducted research, and designed, tested and provided financial education and counseling services to our members, as well as to midlife and older adults generally.[3]

AARP has engaged in efforts to:

- Assess the magnitude of the problem of insufficient savings among adult Americans;

[3] For example, the AARP Andrus Foundation, in a joint venture with the National Center for Women and Aging at the Heller Graduate School at Brandeis University, has created a website (www.FAAR.org) that provides direct access for researchers, practitioners and journalists, to the latest research on economic security, retirement income and consumer expenditures issues. FAAR refers to "Financial Aspects of Aging Research". Also, AARP's own website (www.aarp.org) has a venue for "web financial resources" that offers assistance in finding financial information, financial planning, economic watchdog, work smart, wise saving, etc.

- Identify and review research on the status of mature adult financial planning and management as it relates to savings and financial security; and
- Analyze existing savings education programs, focusing on those that have been formally evaluated.[4]

In April 2001, AARP contracted with Ipsos-NPD to conduct a study of people age 50 through 59 to gain more information about their interests, preferences and behaviors.[5] Among the key findings of this survey:

- <u>Interest in learning about financial topics</u>:
    - o Respondents were given a list of 22 financial topics and asked to select five that they consider most important to learn about. More than six in ten (62%) said that Social Security benefits are important to learn about. Roughly half as many considered knowing how much money they'll need in retirement (39%), sources of retirement income (39%),

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[4] AARP has sponsored a number of studies dealing with different aspects of savings and investment behavior for those age 50 and over. Some of the most recent reports include:

- How Americans Save (July 1998)
- Do Baby Boomers Save and, If So, What For (June 1999);
- The Impact of Pay Inequality, Occupational Segregation, and Lifetime Work Experience of the Retirement Income of Women and Minorities (September 1999);
- Pension and IRA Coverage Among Boomer, Pre-Boomer, and Older Workers (February 2000); and
- Patterns of Dissaving in Retirement (August 2000).

[5] From a sample composed mostly of Baby Boomers nearing retirement age, response to the mailed questionnaire was 57 percent (N = 1,932 responses out of 3,400 surveyed).

saving for retirement (30%), or pension benefits and 401 (k)s (29%) as important topics to learn about.

- No more than one-in-four picked any of the other topics, listed here in descending order as being among the top five: investing (24%), savings (22%), tax strategies (21%), inheritance issues (20%), home-based business (14%), estate planning (14%), debt management (14%), financial planning (12%), IRAs (11%), home equity or reverse mortgages (9%), investment terms and concepts (8%), changing careers or career management (8%), and paying for education (7%).

- <u>Levels of confidence in a financially secure retirement</u>:
  - Roughly two in ten respondents said they are either extremely (5%) or very confident (14%) that they will have enough money to live comfortably throughout their retirement years. Roughly four in ten (42%) say they are somewhat confident in a financially secure retirement, while a similar percent (39%) said they are either not too confident (22%) or not at all confident (17%).

- <u>Levels of involvement with various financial planning activities</u>:
  - The largest percentage of respondents said they have read their Social Security statement in the past year (56%). One-third (33%) said that they have contributed to a 401 (k) or other similar employer

retirement plan while roughly two in ten said that they have determined their net worth (22%), or reviewed their pension information (20%).

- Media, individual or organizational sources of financial information:
  - When asked how they receive media information about financial issues, over half (54%) said they get information from newspapers, while slightly fewer (47%) said they get such information from television. Four in ten respondents noted that they receive financial information from print brochures (43%) and from magazines (42%), while roughly one-fifth said they get information from the Internet (21%), from books (20%), or from the radio (19%). Only four percent reported that they receive financial information through computer software or videos.
  - Respondents were also asked what individuals or organizations provide financial information to them. Four in ten cited banks or other financial institutions (44%) or government programs or agencies (41%). Roughly one-third of the respondents said that their financial planner (33%), family or friends (32%), and their employer (32%) provide financial information to them. Between one-fifth and one-quarter of the respondents said they receive information from financial services companies (21%) and insurance companies (25%). Less than

one in ten respondents said they receive information from national financial organizations (8%), religious organizations (5%), and community groups or clubs (3%).

Because of changing work patterns, the rapidly growing population of retirement-age Americans, increasingly complex financial and insurance products and services and greater personal responsibility for managing one's own retirement finances, the demand for high quality "non-conflicted" financial literacy programs will continue to grow.[6]

PUBLIC POLICY ISSUES AND MARKET PRACTICES

All insurance products represent protection against some type of risk – whether that risk is associated with a loss of property (e.g., home, automobile), financial solvency (e.g., mortgage or other credit default, loss of income, savings and/or investment) or health (medical, disability, long term care, life or burial). Virtually all these forms of risk and their management follow the individual and family into retirement.

[6] It is a cross-cutting policy goal of AARP in all manner of financial services that advice offered to the consumer be insulated from potential conflicts of interest. See, for example, the testimony by Joseph S. Perkins, Immediate Past President of AARP, on the "Retirement Security Advice Act" (H.R. 2269), before the House Subcommittee on Employer-Employee Relations, July 17, 2001, Washington, D.C.

As it stands today, consumers already spend a considerable portion of their income on insurance coverage, from health to life to burial policies. But before we address ways to enhance the role of private insurance in retirement planning, we should examine a number of issues present in today's market experience that warrant additional illumination and attention by the Subcommittee.

As we might expect, the cost and availability of insurance are important to individuals as well as to organizations and agencies that ultimately serve those in retirement. In recent years the cost of personal insurance has risen dramatically, particularly for automobile and other essential property and casualty coverage. Concern about the soundness of the insurance industry has been heightened in the wake of an increasing number of insurance company failures.

In today's market, regardless of their individual risk characteristics, midlife as well as older Americans are often denied insurance coverage because of age, or are charged unreasonably high premiums to retain coverage. Many types of individual or personal insurance -- including life, health, disability and auto insurance -- and annuities commonly use demographic factors to determine rates, conditions of coverage, benefit schedules and eligibility. The use of a demographic factor often reflects or reinforces past or present patterns of discrimination. The use of these characteristics has a pronounced effect on the availability and affordability of needed insurance.

Gender continues to be used by insurance companies in many places as a factor in determining rates and benefits. The use of gender-based actuarial tables to determine premiums and benefits for life insurance and annuity products causes women to either pay higher premiums or accept lower benefits than men for equivalent levels of economic protection. We favor gender-neutral actuarial tables and rating systems that exist and are effective.

The difficulty that persons with disabilities have in locating and affording needed insurance coverage is perhaps the most severe problem and the most difficult to solve. While certain disabilities clearly affect insurability, reports of insurer discrimination against persons with disabilities in areas unrelated to their disability raise a serious concern. For instance, blindness or deafness has little correlation to the life expectancy of an individual who seeks life insurance, and should not be included as a cost factor of insurance coverage.

In a few instances, however, group characteristics are used to assess insurance rates, such as with long-term care and for health insurance.[7] Even with long-term care insurance, age-based practices should be used only if there is a reasonable relationship between age and the extent of the risk.

[7] With adjusted community ratings the standard community rate is adjusted within specific guidelines for each group on the basis of anticipated utilization by the group's members. This is in contrast to community rating by class, in which a separate rate is set for each of several defined risk classes, such as age and gender.

Increasingly, credit scores are being used to set premiums. On one hand, these scores enable fast and efficient premium rate quotes. On the other hand, their use raises issues of fairness for individual policy holders, particularly within specific groups, such as ethnic minorities and lower-income groups. Identifying good predictors of risk that do not rely on group or immutable individual characteristics is a risk-classification challenge.

In addition to measuring risk by criteria that are reliable and verifiable and that can be administered efficiently and effectively, alternative criteria specific to the insured individual must be as accurate as demographic factors in predicting losses, but with less prejudicial effect. For example, actual continued employment may be more significant as an indicator of health than crossing the traditional retirement age of 65.

Another set of concerns relates to unfair and deceptive practices in the insurance industry. For example, “churning” is the practice of urging existing customers to purchase additional or replacement life insurance policies to generate commissions for agents. Consumers often remain unaware of the costs of these policies until they receive large unexpected bills. In 1997, several of the nation's largest insurers agreed to pay the state of Florida millions of dollars and reimburse consumers pursuant to state investigations of churning.

WHAT CAN AND SHOULD BE DONE

Efforts should continue to be made to increase consumer awareness of insurance alternatives for assembling and managing the necessary financial assets for a secure retirement. At the same time, changes in a number of public policies and insurer market practices would be useful for improving the insurance industry and the products and services it provides.

For example, we believe that Congress and the states should prohibit insurance companies from denying access to coverage – particularly to persons with disabilities, preexisting conditions or chronic illnesses.

We also believe that regulatory initiatives should prohibit companies from refusing to insure, failing to renew or canceling policies, raising premiums, reducing death benefits, or limiting coverage based on age alone. In the case of long-term care insurance and for health insurance plans, age-based practices are proper only if there is a reasonable relationship between age and the extent of risk.

Rating practices should not become barriers to access to affordable health care coverage. At a minimum, incremental steps should be undertaken in the private health insurance market to assure access to care for those under age 65 without coverage and for those at risk of losing coverage or having their coverage significantly diminished.

In addition, clear, comprehensive disclosures are needed on the sale of insurance so that consumers understand the scope, nature and cost of what they are purchasing. These disclosures should be easy to understand and compare so that consumers can evaluate policy benefits and comparison shop. At the same time, these disclosures must be comprehensible enough for consumers to understand exactly what type of insurance they are buying, what will and will not be covered and what the policies cost.

In particular, long-term care insurers should be required to disclose whether a policy provides coverage for less-than-skilled nursing home care and the extent of home- and community-based care benefits. The state insurance commissioner should also require insurers to:

- include specific information on long-term care benefits under public and private insurance programs;
- issue objective, usable, and comparative consumer information on costs and coverage;
- provide post-sale disclosure of paid-up life insurance options; and

- require insurance companies to notify and explain cancellation decisions to subscribers before cancellation occurs.

The McCarran-Ferguson Act of 1945 exempts the insurance industry from federal antitrust laws. As a result, there is no recourse at the federal level if insurance companies engage in collusion, price-fixing, tying of insurance products (requiring consumers to buy other products in addition to the desired product) and other anticompetitive practices. Congress should amend the McCarran-Ferguson Act to repeal its broad antitrust exemptions for the insurance industry. And Congress should lift the restriction on the authority of the Federal Trade Commission (FTC) to investigate the insurance industry.[8] Once that restriction is removed, the FTC should investigate issues such as rate fluctuations in the property-casualty market and the availability of liability coverage.

Further, provision should be made to establish a comprehensive data-gathering body to compile and analyze insurance statistics, including statistics on payment of liability incurred by insurance companies.

[8] See the FTC Improvements Act of 1980.

CONCLUSION

We commend you, Chairman Baker, and the other members of the Subcommittee, for beginning the examination of this important question – what needs to be done to better integrate private insurance into financial planning for retirement. We look forward to working with this Subcommittee to further improve prospects for a secure retirement for all Americans.